



STATE OF WISCONSIN

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Janice Mueller
State Auditor

May 12, 2005

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

In March 2005, we completed our fiscal year (FY) 2003-04 single audit of the State of Wisconsin and issued our report (report 05-5). During the course of our audit and subsequent follow-up, we identified \$4.5 million available to the General Fund from other funds and accounts that the Legislature may wish to consider during the current biennial budget deliberations. In addition, we identified an error in the State Historical Society of Wisconsin's internal accounting records that understated the balance in its endowment fund by \$1.1 million.

First, in FY 2003-04, the Department of Workforce Development (DWD) received \$3.0 million in federal funds as reimbursement for costs incurred in prior years by local governments as well as expenditures charged to a prior-year general purpose revenue appropriation. However, rather than accounting for these funds as general purpose revenue of the General Fund, as required by statute, DWD deposited these funds in an unrelated federal appropriation. Alternatives include either lapsing these funds to the General Fund or allowing DWD to retain all or a portion of the funds but requiring the agency to seek legislative authority before expending them.

Second, we identified a bank account holding \$906,000 related to Wisconsin Health Education Assistance Loan (WHEAL) revenue bonds. This bank account is no longer needed because the related revenue bonds have been fully repaid. If desired, the Legislature could direct the Higher Educational Aids Board, which administers the loan program, to close the account and transfer the balance, as well as any future student loan repayments, to the General Fund for general appropriation.

Third, the Department of Commerce administers the Wisconsin Development Fund, which was established to provide loans and grants for economic development. At the time a loan or grant is awarded, Commerce encumbers either general purpose revenues or program revenues. However, we identified several inactive loans and grants for which it had previously encumbered funds. If desired, the Legislature could direct the Department of Commerce to liquidate and lapse to the General Fund \$337,000 in inactive encumbrances related to general purpose revenue appropriations. In addition, we have identified a total of \$7.3 million in inactive encumbrances and additional balances related to a Department of Commerce program revenue appropriation for loans and grants.

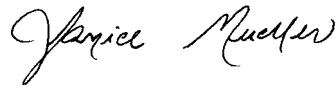
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Fourth, 2001 Wisconsin Act 109 directed the Department of Administration (DOA) to offer for sale 21 aircraft and to deposit the sales proceeds, less any related liabilities, to the General Fund. As of March 31, 2005, DOA had sold 11 of those aircraft. However, it deposited all sales proceeds to one of its own program revenue appropriations. If the Legislature believes that DOA should instead have lapsed funds at the end of each fiscal year, it could direct DOA to immediately lapse net sales proceeds for FYs 2002-03 and 2003-04, which total to approximately \$241,000, as general purpose revenue of the General Fund.

Finally, the State Historical Society of Wisconsin accounts for certain donations in the Historical Society Trust Fund, the Society's endowment fund. However, we found that the Society has not taken into consideration an additional \$1.1 million that has been available in the Trust Fund since FY 1997-98. The majority of these funds are restricted for purposes specified by the donors, and the Society's current policy is to spend up to 5 percent of its balances each year. The Legislature may wish to direct that the Society's Board of Curators take into consideration the additional \$1.1 million in trust fund balances when developing future expenditure plans.

A more detailed explanation of these available funds is attached. We hope that you find this information useful. If you have any questions or comments, please contact me.

Sincerely,

A handwritten signature in cursive script, reading "Janice Mueller".

Janice Mueller
State Auditor

JM/BN/bm

BUDGETARY ISSUES

During the course of our fiscal year (FY) 2003-04 single audit, we identified \$4.5 million available to the General Fund from other funds and accounts that the Legislature may wish to consider during the 2005-07 budget deliberations. In addition, we determined that the State Historical Society of Wisconsin was unaware of an additional \$1.1 million available in its endowment fund.

Available Federal Revenues

Before implementation of the federal Temporary Assistance for Needy Families (TANF) program in 1996, the State received funding to assist families in need under the Aid to Families with Dependent Children (AFDC) program. Although AFDC ended, grant awards remained open for an extended period of time to allow states to record any necessary adjustments to previously recorded expenditures.

In its efforts to close out the AFDC grants during FY 2003-04, the Department of Workforce Development (DWD), which administers TANF and assumed responsibility for AFDC, performed a final reconciliation of AFDC transactions and identified \$3.0 million in eligible costs incurred in FY 1995-96 and 1996-97 for which federal AFDC funds had not been received. These costs include approximately \$2.8 million incurred by local governments and \$200,000 originally charged to a general purpose revenue (GPR) appropriation. Because the State was still authorized to request AFDC funding, on June 8, 2004, DWD requested and received \$3.0 million in federal funds, representing reimbursements of expenditures that had been paid by local governments or by GPR.

We are concerned because DWD did not account for these funds as general purpose revenue under s. 20.906(1), Wis. Stats., or as refunds of expenditures under s. 20.001(5), Wis. Stats. Rather, DWD recorded these funds as federal revenues and credited them to an unrelated continuing federal appropriation authorized under s. 20.445(3)(nL), Wis. Stats., to account for federal funds provided to local governments for the administration of the child support enforcement program. Accounting for these funds in a continuing appropriation prevented them from lapsing and being made available for appropriation by the Legislature.

DWD staff are aware that they may not expend the funds without legislative authority. They also note that they credited these funds to a continuing, although unrelated, appropriation to ensure funds would be available to pay a portion of the possible disallowances identified by a federal review of AFDC benefit overpayment recoveries received between July 1, 1996, and September 30, 2001. That review concluded that DWD's practices for reporting and remitting AFDC overpayment recoveries to the federal government were not in accordance with federal requirements and that \$10.7 million should be returned to the federal government. While DWD disputes the majority of the review's findings and conclusions, it has agreed that approximately \$1.4 million in AFDC overpayment recoveries were not appropriately accounted for and should be returned. DWD is currently negotiating with the federal government to resolve this issue.

Although the \$3.0 million in federal AFDC funding claimed during the grant closeout process is not directly related to the questioned costs identified by the federal government, if DWD follows statutory accounting provisions and lapses these funds to the General Fund, these funds will not

be available for paying federal disallowances. If the Legislature wishes to maintain oversight of the \$3.0 million, three options are available:

- First, the Legislature could direct DWD to immediately lapse the \$3.0 million to the General Fund and, as required under s. 16.544, Wis. Stats., to report to the Joint Committee on Finance in the event it needs to return funds to the federal government.
- Second, the Legislature could direct DWD to lapse \$1.6 million to the General Fund but allow it to retain \$1.4 million, representing the amount of overpayments that DWD acknowledges were not accounted for properly.
- Finally, the Legislature could allow DWD to retain the entire \$3.0 million in anticipation of the federal audit disallowances.

If DWD is allowed to retain any of the \$3.0 million, it would be required to obtain legislative approval before spending those funds.

Available WHEAL Balances

In a June 13, 2003, letter to the Audit Committee, we noted that the Higher Educational Aids Board maintained a separate bank account for Wisconsin Health Education Assistance Loan (WHEAL) repayments. These student loans were originally funded by revenue bonds that were issued in the early and mid 1980s. Because those revenue bonds have been repaid, a separate bank account is no longer needed. In June 2003, we recommended the account be closed.

At that time, we also provided options to the Legislature, including directing that available balances in the bank account be treated as GPR of the General Fund, as required by s. 20.906, Wis. Stats. In s. 9225, 2003 Wis. Act 33, the Legislature directed the Higher Educational Aids Board to transfer \$1.0 million from the bank account to the General Fund. The transfer was made during FY 2003-04.

However, the bank account continues to remain open, and the Higher Educational Aids Board continues to collect student loan repayments from the WHEAL program and deposit them to this account. As of March 31, 2005, \$906,000 has accumulated in the bank account. In addition, 18 student loans remain outstanding with a total balance of approximately \$600,000, for which HEAB will continue to collect principal and interest.

We continue to believe the bank account should be closed and the student loan repayments should be deposited directly to the State's working bank. In addition to directing the Higher Educational Aids Board to close the bank account and immediately transfer the \$906,000 account balance to the General Fund, the Legislature may wish to direct that all future WHEAL loan collections be treated as GPR. We note that HEAB currently budgets for \$71,100 annually to fund a 0.64 full-time equivalent position in the segregated fund appropriation under s. 20.235, Wis. Stats., which is currently funded by transfers from the bank account. If the account is closed, HEAB would be forced to find an alternative funding source to fund the 0.64 full-time equivalent position or eliminate the positions. Alternatively, the Legislature may wish to provide that a portion of the student loan repayments be credited to that appropriation.

Encumbrances in the Wisconsin Development Fund

The Wisconsin Development Fund, which is administered by the Department of Commerce, was established to provide loans and grants to businesses for economic development. The Fund consists primarily of a biennial GPR appropriation created under s. 20.143(1)(c), Wis. Stats., and a continuing program revenue appropriation created under s. 20.143(1)(ie), Wis. Stats. As provided for by statute, all loan repayments, regardless of the original funding source, are credited to the continuing program revenue appropriation.

During FY 2003-04, Commerce disbursed \$4.9 million in GPR and \$3.3 million in program revenue for Wisconsin Development Fund loans and grants. The program revenue appropriation had an unencumbered balance of \$6.8 million as of June 30, 2004.

The Department of Commerce has an established process to review and award loans and grants. When the loans and grants are approved, Commerce encumbers either GPR or program revenue to ensure sufficient resources are available to pay for the loans and grants in the future. However, most loan and grant disbursements are made on a reimbursement basis. Given that some projects have several phases, it may take several years to fully disburse the funds and liquidate the encumbrances.

It is important to review outstanding encumbrances to ensure they relate to open and active loans or grants. In the event the loans or grants are inactive, the encumbrances should be liquidated to free up spending authority to make other awards or, for the biennial GPR appropriation, to lapse to the General Fund if the encumbrances relate to a prior biennium.

As of June 30, 2004, the GPR appropriation had \$5.4 million in outstanding encumbrances, and the program revenue appropriation had \$10.0 million in outstanding encumbrances. We reviewed these encumbrances and determined that a total of \$789,706 was for inactive loans and grants, as summarized in Table 1:

Table 1

Inactive Encumbrances

June 30, 2004

Source	Number of Encumbrances	Amount
GPR	8	\$336,665
Program Revenue	11	452,041
Total	19	\$788,706

None of these encumbrances have had activity since at least June 30, 2003, and the outstanding balances for all 19 encumbrances could be liquidated. Because the inactive GPR encumbrances relate to the prior biennium, the Legislature may wish to direct the Department of Commerce to immediately liquidate these encumbrances and lapse \$336,665 to the General Fund.

The \$452,041 in inactive program revenue encumbrances should be liquidated to provide a clearer picture of the balances available for expenditure in the continuing program revenue appropriation. As noted, the program revenue appropriation had an unencumbered balance of \$6.8 million as of June 30, 2004. After taking into consideration the \$452,041 in unneeded encumbrances, Commerce has a total of \$7.3 million in program revenue balances available for loans and grants. The Legislature may wish to consider the availability of the \$7.3 million in the program revenue appropriation when making funding decisions involving Commerce programs.

Aircraft Sales Proceeds

In nonstatutory provisions included in 2001 Wisconsin Act 109, the Legislature directed the Department of Administration (DOA) to offer 21 aircraft for sale and to deposit the sales proceeds, less the amount of any liabilities related to the aircraft, to the General Fund as GPR. Preparation and selling costs are also deducted from sales proceeds.

Through April 30, 2005, DOA sold 11 aircraft for a total of \$1.1 million, as shown in Table 2. However, instead of treating the net sales proceeds as GPR in the year of the sales, DOA deposited all proceeds to its own program revenue appropriation, authorized in s. 20.505(1)(kb), Wis. Stats., for transportation and other services provided to other state agencies.

Table 2

Aircraft Sold July 1, 2002 through April 30, 2005

Fiscal Year	Aircraft Sold	Sale Proceeds	Related Liabilities	Preparation and Selling Costs	Net Proceeds
2002-03	3	\$ 135,444	\$ 62,986	24,726	\$47,732
2003-04	6	381,805	158,196	30,313	193,296
2004-05	2	630,000	755,117	21,326	(146,443)
Total	11	\$1,147,249	\$976,299	76,365	\$94,585

The statutory language in 2001 Wisconsin Act 109 does not clearly indicate when the net proceeds should be lapsed to the General Fund. DOA originally anticipated that the net sales proceeds would be determined after all 21 aircraft were sold. However, given that it has sold only 11 aircraft since the enactment of 2001 Wisconsin Act 109, and additional sales are not anticipated for the immediate future, DOA is currently planning to lapse net sales proceeds of \$94,585 to the General Fund by the end of FY 2004-05.

If DOA had lapsed the net sales proceeds annually, \$47,732 would have been recorded as GPR in FY 2002-03, and \$193,296 would have been recorded as GPR in FY 2003-04. This treatment would have been consistent with DOA's policy, dated March 14, 2005, related to the Governor's car fleet reduction initiative, which requires other state agencies to offset gains and losses within the same fiscal year and to deposit the net proceeds to the Budget Stabilization Fund "as soon as possible." However, the Department maintains that the different treatment of net proceeds for the sale of the aircraft and the Governor's car fleet reduction initiative is justified since there are different statutory provisions addressing each.

If the Legislature intended DOA to annually lapse the net proceeds from the sale of aircraft, it could direct the agency to immediately transfer \$241,028, the net sales proceeds for aircraft sold during FY 2002-03 and FY 2003-04 to the General Fund.

Historical Society Trust Fund

The State Historical Society of Wisconsin relies on donations and endowment fund earnings to finance many activities related to managing the various historical sites, operating the Society's library, archives, and museum, and fulfilling other statutorily assigned responsibilities. Some donations are solicited by private, nonprofit organizations, the largest of which is the Wisconsin Historical Foundation, Inc. These funds are accounted for outside of the State's central accounting system. However, donations made directly to the Society are generally credited to the Historical Society Trust Fund. That fund is the Society's endowment fund, which is created under s. 25.70, Wis. Stats., and is accounted for on the State's central accounting system.

As reported in the State's audited financial statements, the Historical Society Trust Fund had a June 30, 2004, balance of \$10.6 million, which was invested primarily in stock and bond index funds by the State of Wisconsin Investment Board. The majority of these funds are restricted for specific purposes identified by donors, and the Society maintains separate accounts for these purposes. For example, more than \$2.4 million is restricted for use at the Madeline Island historic site. However, approximately \$3.2 million of the Trust Fund balance is unrestricted and may be used for any Historical Society purpose. In s. 25.70, Wis. Stats., the Legislature provided that only trust fund income may be expended unless otherwise approved by the Board of Curators. In order to lessen fluctuations in annual investment earnings and losses, the Board's current policy bases spending from the trust fund on 5 percent of the three-year average of the account balance, regardless of the amount of annual investment earnings.

Periodically, the Society reports to the Board of Curators, which oversees its operations, on the balance in the Historical Society Trust Fund. As of June 30, 2004, the actual balance of the Trust Fund was \$10.6 million. As shown in Table 3, the actual balance was \$1.1 million more than the \$9.5 million reported to the Board of Curators in February 2005.

Table 3

Historical Society Trust Fund
Difference Between State and Society Records as of June 30, 2004

Description	Amount
Balance Reported in the State's Financial Statements	\$10,674,466
Balance Reported to the Board of Curators	9,533,566
Difference	\$ 1,140,900

We found that this variance resulted primarily from a \$1,148,204 adjustment in the market value of the Trust Fund's investments. The adjustment was correctly recorded in the State's central accounting records during FY 1997-98 but, apparently because of error or oversight, was not allocated by the Society to the various restricted and unrestricted accounts. Miscellaneous errors reduced the variance to \$1,140,900.

Because the Society did not properly allocate the \$1.1 million to the various Trust Fund accounts, it did not take earnings on these funds into consideration when establishing expenditure plans. Had the Society appropriately recognized these funds, an average of approximately \$50,000, or 5 percent of the additional balance, would have been available for expenditure each year for the six-year period from FY 1998-99 through FY 2003-04, for total additional expenditures of \$300,000.

As noted, the majority of the funds in the Society's endowment are restricted for specified purposes. Now that additional funds have been identified, we believe it may be prudent for the Society to retain these funds in its endowment, which would provide for increased investment earnings to fund future expenditures. Alternatively, the Board of Curators could decide to spend the funds that would have been budgeted for in prior years, had the Society properly accounted for them in its internal records. The Legislature could also direct that the Board of Curators take the additional \$1,140,900 in previously unidentified funds into consideration when developing the Society's future expenditure plans.
